



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 100

COURSE TITLE: FINANCIAL ACCOUNTING 1

DATE: 6TH AUGUST 2018

TIME: 8.00 AM – 11.00 AM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

a) Alex operates a business based in Ruiru town. He has received a bank statement which indicates that he has kshs 90,000 in his business bank account. His cash book bank balance is kshs 120,000. Alex has hired you to investigate the cause of the difference between the two bank balances **[10 marks]**

b) The following account balances relate to MM traders limited for the year ended 31st December 2017.

Item	Kshs
Premises	350,000
Machinery	80,000
Equipment	60,000
7 year bank loan	200,000
Debtors	70,000
Stock	30,000
Overdraft	40,000
LXM Creditors	50,000

During the first week of January 2018 the following transactions occurred

- 1.3rd January, he purchased kshs 11,000 stock on credit from GMT traders
2. 5th January, PMM traders who were their customers and owed them kshs 6,000 of the debtors balance paid them through issue of a cheque of the same value
3. He sold goods worth kshs 50,000 cash to LTB customers on 7th of January
4. LTB however returned goods worth kshs 5,000 to the business as the goods were faulty the following day. They were given a cash refund on account of the goods
5. MM traders bought additional goods on credit valued for kshs 90,000 from BBT limited on 10th January.
6. The business made sales amounting to kshs 160,000 and received a cheque in payment on 14th of January.

Required:

- (i) prepare ledger accounts on account of the above transactions **[9 marks]**
- (ii) Prepare a trial balance as at 15th January 2018 **[5 marks]**

c) Accounting equation expresses the relationship between the assets liabilities and capital. Discuss three recognition criteria that qualifies an item to be considered an asset **[6 marks]**

d) Accounting information is prepared in order to assist the users make informed decisions.

Explain five types of users of accounting information and the purpose to which they require the accounting information

[10 marks]

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

a) Allan has been operating a business for the last 2 months and has not been keeping a cashbook record of his transactions. He has hired you to assist him with preparing an updated cashbook and has provided the following information

1. He started business on 1st May 2018 with kshs 85,000 in the bank and kshs 36,000 cash
2. On 2nd May, he invested kshs 41,000 of the amount he had in his business bank account on securities whose return was kshs 2,000 after end of each month
3. He hired 2 employees to assist him in the business and promised them kshs 5,000 each as salary each month
4. He bought kshs 34,000 worth of goods to sell to his customers on 2nd May 2018
5. He bought a premises worth kshs 23,000 for setting up the business on 3rd May the same month
6. He sold goods on credit for kshs 45,000 to PML customers on 8th May, who promised to pay later
7. He acquired additional stock valued for kshs 70,000 on 9th May. He paid through the issue of a cheque to the suppliers.
8. He acquired stationary for use in his business and paid through a cheque of kshs 6,000 on 11th January
9. PML customers paid him kshs 43,000 cash which was accepted as full settlement of the debt they owed him on 12th May
10. He acquired kshs 5,000 stock and paid cash on 15th May
11. On 17th, he noticed part of the stock bought on 15th valued at kshs 1,000 were defective. He returned to the supplier and was given a cash refund
12. On 29th of May, he paid his two employees their monthly wages in cash
13. 30th of May he received kshs 2,000 being return from his investment made on 2nd May
14. He received interest income kshs 3,000 which was credited by his bank to his business bank account on 30th May
15. 5th June, he made sales on credit basis to Juakali enterprises for kshs 79,000
16. 7th June, Juakali enterprises returned kshs 5,000 worth of the goods as they were delivered in excess
17. 10th June, he received a cheque of kshs 62,000 by Juakali as part payment of the debt they owed him
18. He acquired a motorcycle in order to deliver goods to his customers on 15th. He paid kshs 6,000 cash on account of the motorcycle
19. He sold kshs 120,000 goods on cash basis on 20th the same month
20. He brought his personal car worth kshs 27,000 into the business on 23rd June
21. A friend of his loaned him kshs 31,000 cash on 24th
22. On 30th June he paid the months wages to his two employees

Required: Prepare a Cash book using the above transactions

[16 marks]

- b) Clement is an investment manager with Sanlam limited. He informed his friend, Titus who works with Kenya vehicle manufacturers of his intention to acquire a motor vehicle on 1st July 2018. He had the option of either buying the motor vehicle locally or importing the vehicle. Using the following two scenarios discuss the quality of useful accounting information that was missing

Scenario 1. He requested Titus to find the cost of the car he had selected and furnish him with the information before 18th of June to enable Clement make a decision on whether to import or to buy a locally made car. Titus informed him on 15th July 2018 that buying the vehicle locally would cost Clement kshs 500,000 while importing the car would cost kshs 300,000. **[2 marks]**

Scenario 2: Based on the information he obtained from Titus, he decided to import the car as it was cheaper by kshs 200,000. Upon importing the vehicle he was expected to pay kshs 200,000 being freight and insurance and duty charges of kshs 100,000. The final cost of importing the vehicle ended up being kshs 100,000 more than the cost of buying the vehicle locally. **[2 marks]**

Question three

- a) Samson owns a business that makes timber based products. The following transactions relate to his business for the year ended 31st December 2017.
1. Credit Sales of timber based products amounted to kshs 193,000
 2. Opening stock of timber as of 1 January 2017 was valued at kshs 23,000
 3. He acquired kshs 78,000 worth of timber for use in his business in the course of the year.
 4. Kshs 15,000 of timber was found to be damaged and Samson returned to the supplier
 5. Customers returned some of the goods earlier bought which amounted to kshs 21,000
 6. He incurred transport cost of kshs 9,000 to transport the finished products to his customers
 7. He also incurred kshs 31,000 wages, rent kshs 2,000, electricity kshs 4,000 and the cost of advertising his business was kshs 19,000
 8. The cost of hiring a pick up to transport the timber to his premises amounted to kshs 11,000
- Additional information: cash sales amounted to kshs 45,000 while the closing stock valued at the end of the year was kshs 39,000

Required: Prepare an Income Statement for the year ending 31st December 2017

[10 marks]

- b) Explain four methods used to compute the value of depreciation in a firm [10 marks]

Question Four

- a) Accounting as a profession has various principles which accountants are expected to adhere to. Discuss five principles of accounting and their significance [15 marks]
- b) Explain five source documents in accounting [5 marks]

Question five

Antony is an accountant in XYL limited. The internal auditor of the same business has noticed the following errors in regards to the accounting records prepared by Antony during the month of June 2018

- i) Credit Sales made to Joyce amounting to kshs 13,000 were debited in Jane's account
- ii) On 12th June, sales of kshs 5,000 were made on cash basis. Antony debited the sales account and credited cash account with the same amount
- iii) A debtor who owed the firm kshs 13,000 paid his account through the issue of a cheque to the firm. Antony however failed to record this transaction
- iv) The firm acquired a motor car worth kshs 56,000 on cash bases. Antony credited cash account and debited motor vehicle expenses account in regards to this transaction.
- v) The firm had bought goods worth kshs 9,000 on credit basis from MMI millers limited. Antony effected the correct accounts but used kshs 900 instead of kshs 9,000

Required

- i) Explain the error committed in each of the above cases [10 marks]
- ii) Prepare journal entries to correct the above errors [6 marks]
- iii) Discuss four causes of changes in the value of capital [4 marks]